

## MEMORANDUM

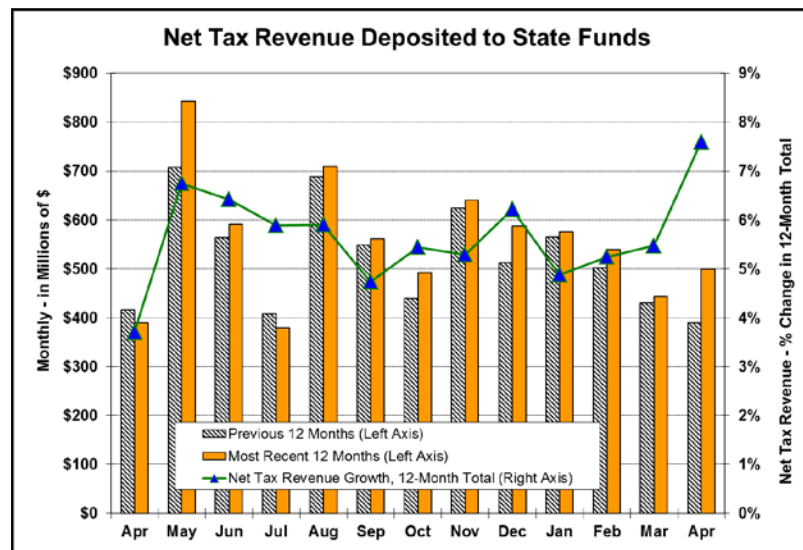
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: May 23, 2012

### Twelve-month Total Net Tax Receipts Through April 30, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 2012 with comparisons to the previous twelve months. April 2011 to April 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Net tax revenue across all State funds increased 27.9% in April, as strong payments with individual income tax returns, combined with decreased income tax refunds, significantly increased net income tax receipts. Sales/use tax revenue was also up sharply in April. As depicted in the graph above, the year-over-year percentage rate of growth jumped in April, much like it did in May 2011. Although income tax withholding deposits have been improving growth remains low, and taxable vehicle fuel sales growth is near zero. Both of these items

indicate an economy that is expanding slowly. At \$6.863 billion, annual revenue for the first time exceeds the previous peak established in October 2008.

### **Month of April Comparison**

April net tax receipts totaled \$499.4 million, an increase of \$108.9 million (27.9%) compared to April 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$66.3 million, 42.1%) – Gross income tax deposits increased \$57.3 million in April and individual income tax refunds issued were \$9.0 million lower than last April. Of the \$66.3 million net increase, \$53.7 million (81.0%) can be traced to income tax returns (increased payments with returns and lower tax refunds issued). The filing deadline for 2011 tax returns was April 30 this year, while last year the filing date was May 2. This calendar issue contributed somewhat to the significant April increase.
- Sales/Use Tax (positive \$27.2 million, 24.3%)
  - Road Use Tax Fund use tax (fee for new registration) increased \$0.5 million in April. Monthly comparisons have shown increases in 12 of the past 14 months, with seven of the months posting a percentage increase of 9.3% or higher.
  - Gross General Fund sales/use tax receipts increased \$25.6 million, the largest monthly gross deposit increase since the local option sales tax for schools was converted to a statewide sixth cent of sales tax (2009). Regular sales tax refunds decreased \$4.3 million and school infrastructure transfers out increased \$3.2 million.
- Corporate Income Tax (positive \$12.4 million, 35.7%) – Deposits of corporate income tax receipts continued the year-long trend, growing significantly in April. Corporate income tax refunds increased \$1.3 million.
- Fuel Tax (negative \$4.4 million, - 12.2%) – Gross fuel tax deposits declined \$2.3 million for the month while tax refunds increased \$2.1 million.
- Cigarette and Tobacco Taxes (negative \$3.4 million, - 18.0%) – Deposit timing issues have produced significant volatility in recent cigarette and tobacco tax monthly amounts. The \$106.0 million annual limit for deposits to the Health Care Trust Fund was reached in late December 2011. Cigarette and tobacco tax receipts for the remainder of FY 2012 will be deposited to the General Fund.
- Gambling Tax (positive \$1.3 million, 5.4%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending April 2012, net revenue from all taxes deposited to State funds totaled \$6.863 billion, an increase of \$484.9 million (7.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$229.2 million, 8.3%) – Individual income tax continues to post good year-over-year annual growth numbers and the income tax withholding component has shown improvement over the past two months. A very strong income tax return processing season (good growth in payments with tax returns, little growth in tax refunds issued) has added significantly to year-over-year growth the past two months.
- Sales/Use Tax (positive \$71.7 million, 3.2%)

- Corporate Income Tax (positive \$153.0 million, 74.4%) – With the significant April increase, annual corporate tax revenue, net of refunds issued, is now just below the prerecession peak (September 2008 = \$359.2 million).
- Fuel Tax (negative \$7.7 million, - 1.7%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 0.3% while taxable diesel sales decreased a fraction of a percent (the first decrease in the annual total diesel sales since July 2010). Taxable diesel sales over the most recent 12-month period are 4.3% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 0.8% above the prerecession (August 2007) peak for all taxed gallons sold.
- Gambling Tax (positive \$16.0 million, 5.7%) – According to Racing and Gaming Commission statistics, five of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending April 2012. The combined AGR growth for the 18 facilities was positive 5.7% over the previous 12-month period, with the Lyon County casino contributing 66.6% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.455 billion.
- Insurance Premium Tax (negative \$2.6 million, - 2.6%)
- Cigarette and Tobacco Tax (negative \$0.6 million, - 0.3%)

### **Tax Spotlight - Cigarette Tax and Tobacco Tax**

Tobacco products are taxed under the authority of Iowa Code Chapter 453A. Based on law changes during the 2007 Legislative Session:

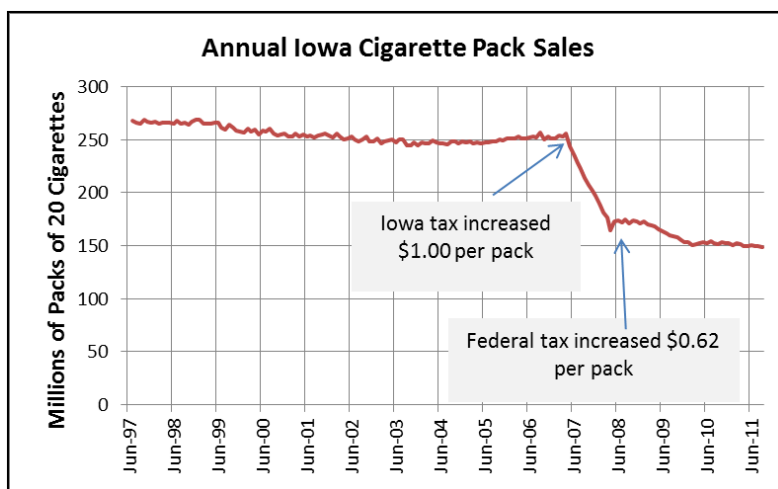
- Cigarettes and little cigars are taxed at \$.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price per cigar, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.
- Effective July 1, 2012, in addition to the tobacco tax of 50.0% of the wholesale price, roll-your-own (RYO) cigarettes are taxed at \$0.0306 per cigarette (\$0.65 per pack of 20).

The Iowa cigarette tax was first enacted at a rate of \$.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until the 2007 Legislative Session. The current State tax rates went into effect on March 16, 2007.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

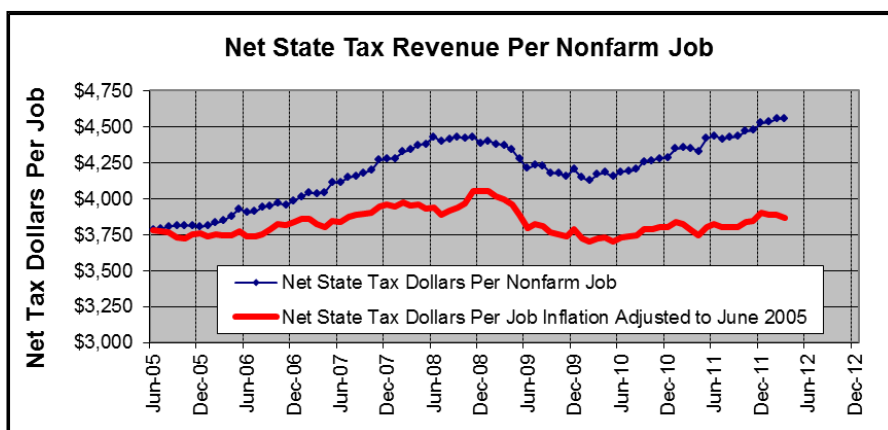
The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarettes) tax returns must be filed by the 20th day of each month for the preceding calendar month. The first \$106.0 million of revenue received from the cigarette and tobacco tax each fiscal year is deposited in the Health Care Trust Fund with the remainder deposited in the State General Fund.

The following graph shows the 12-month moving total of cigarette packs sold in Iowa, as reported by the Iowa Department of Revenue. The line shows a general sales decrease, punctuated by the impact of one State and one federal cigarette tax increase.



## Tax Revenue and Employment

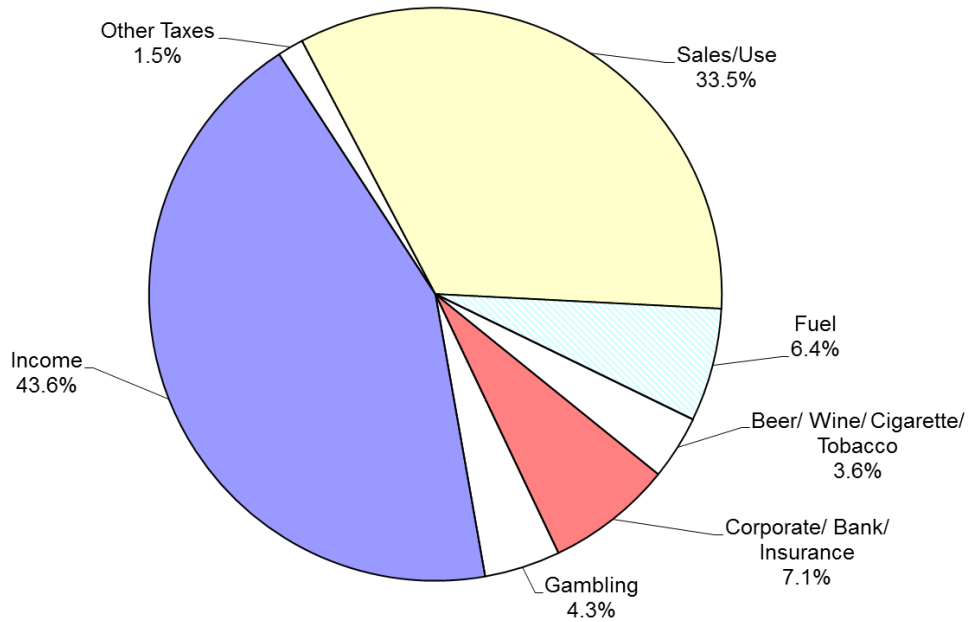
The average reading for Iowa nonfarm employment over the 12 months ending March 2012 is 1,481,400 and net State tax receipts over the same 12 months totaled \$6.753 billion, or \$4,559 per nonfarm job. This is \$774 (20.4%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 17.9%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.4% per year since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending April 2012

**Net Revenue = \$6.863 Billion**

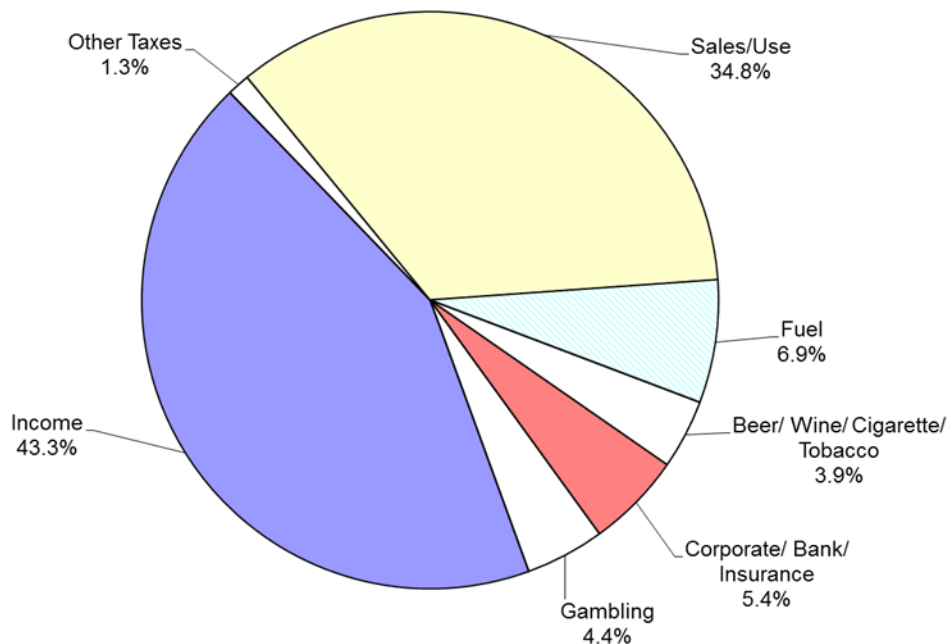
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending April 2011

**Net Revenue = \$6.378 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of April 2011	Month of April 2012	April \$ Change	April % Change
Banking	\$ 28.2	\$ 33.0	\$ 4.8	17.0%	\$ 1.0	\$ 6.7	\$ 5.7	570.0%
Beer & Wine	21.3	21.7	0.4	1.9%	1.7	1.7	0.0	0.0%
Cigarette & Tobacco	226.7	226.1	- 0.6	-0.3%	18.9	15.5	- 3.4	-18.0%
Corporate Income	205.6	358.6	153.0	74.4%	34.7	47.1	12.4	35.7%
Fuel	446.3	438.6	- 7.7	-1.7%	36.2	31.8	- 4.4	-12.2%
Gambling	278.5	294.5	16.0	5.7%	23.9	25.2	1.3	5.4%
Individual Income	2,761.6	2,990.8	229.2	8.3%	157.3	223.6	66.3	42.1%
Inheritance	62.2	75.0	12.8	20.6%	3.6	6.8	3.2	88.9%
Insurance	99.4	96.8	- 2.6	-2.6%	0.0	0.2	0.2	--
Other Taxes	4.5	11.3	6.8	151.1%	0.1	0.2	0.1	100.0%
Real Estate Transfer	14.1	15.2	1.1	7.8%	1.1	1.4	0.3	27.3%
Sales/Use	2,229.3	2,301.0	71.7	3.2%	112.0	139.2	27.2	24.3%
Total Net Taxes	\$ 6,377.7	\$ 6,862.6	\$ 484.9	7.6%	\$ 390.5	\$ 499.4	\$ 108.9	27.9%
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,639.3	\$ 8,179.0	\$ 539.7	7.1%	\$ 597.0	\$ 698.4	\$ 101.4	17.0%
Tax Refunds	\$ - 1,261.6	\$ - 1,316.6	\$ - 55.0	4.4%	\$ - 206.6	\$ - 198.9	\$ 7.7	-3.7%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,418.9	\$ 5,764.4	\$ 345.5	6.4%	\$ 302.4	\$ 414.1	\$ 111.7	36.9%
Road Use Tax Fund	\$ 729.4	\$ 740.8	\$ 11.4	1.6%	\$ 63.6	\$ 59.6	\$ - 4.0	-6.3%
Non-GF Gambling	\$ 210.6	\$ 225.7	\$ 15.1	7.2%	\$ 23.7	\$ 25.0	\$ 1.3	5.5%
Other State Funds	\$ 18.8	\$ 131.5	\$ 112.7	599.5%	\$ 0.7	\$ 0.8	\$ 0.1	14.3%
Local Option Taxes *	\$ 800.7	\$ 859.5	\$ 58.8	7.3%	\$ 77.1	\$ 86.4	\$ 9.3	12.1%

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.